

Business ethics: an oxymoron



Moral problems arise when organizations are faced with issues related to bribery, conspiracy, theft, marketing policies, corporate acquisitions, investments, payments to suppliers, hiring, firing, retraining employees, falsified reports, concealment of debts, insider trading, perks to executives and outsiders, and so on. Moral problems also arise when a firm tries to cut costs, e. g., building a dam (which will block a river that canoeists and vacationers have been using for years) to generate power and reduce energy costs and providing employees with cheap and almost tasteless coffee or non-filtered water. Are the foregoing actions ethical?

Human beings must be fair in their dealings with others! It is difficult to ensure a “win-win” situation for all because there are situations that involve conflicting interests-i. e., owners, management, other employees, suppliers, customers, government organizations, and so on.

Moral problems represent a conflict between a firm’s financial and social performance-i. e., its obligations to insiders and outsiders, such as protecting loyal employees, maintaining competitive markets, producing safe products, and preserving the environment.

The success of a business is often measured by its profit and cash flow position. Employee effectiveness is often measured by contribution to the bottom line. A salesperson who bribes purchasing agents may succeed in increasing sales and commissions. Likewise, the design engineer who finds questionable ways to cut material costs may receive more praise than one who focuses on product quality and consumer safety.

Moral Standards

Every individual has his/her moral standards-based on upbringing, values, norms, beliefs, religion, cultural background, and goals-that help him/her to judge what is “ fair” and whether anyone’s rights are being compromised.

But moral standards are subjective!

1. Personal goals. If A’s goal is more money and power and B’s goal is more justice and equality, then A and B will differ in their opinion of what is right and what is wrong.
2. Personal norms. Norms relate to expectations of behavior and may lead to judgments of what is right and wrong.
3. Personal beliefs. Beliefs are related to norms-e. g., smoking is bad for your health; therefore, do not smoke in my presence because I value my health and so should you.
4. Personal values. Values re→, ect priorities between our goals, norms, and beliefs.

Recognizing Moral Impact

Moral problems arise when decisions result in gains for some individuals and → financial/emotional/other losses for others. Therefore, when analyzing a problem, determine who will bene→ t/suffer and whose rights will be recognized/denied. Review the feedback of everyone involved based on their moral standards, and present the problem as a question rather than as a statement so that it does not threaten the welfare of any of the individuals concerned.

Ethical Duties

Every member of society has obligations toward others-no lying, cheating, stealing, and so on; otherwise, the (moral) foundation of a society will be destroyed even if the overall gain to society exceeds the overall loss! Review the examples outlined below:

1. Cruise ships and the disposal of waste. Cruises offer enjoyment, but there are problems resulting from the waste created by crew and customers. Human waste is stored in large tanks and pumped into waste treatment plants when the ships return to their home ports. Nonhuman waste, including garbage and laundry plus the washing of utensils, is stored in smaller tanks and dumped into the sea at night. Officials of cruise lines claim that they cannot afford larger tanks for nonhuman waste and its treatment because this would reduce space available for crew and passengers and increase costs, prices, and the number of cruises offered to the public. This would reduce the amount spent by customers on the islands they visit, thereby reducing the income of those countries. The World Health Organization (WHO) has not done much to reduce pollution resulting from this practice while maintaining that there is no proof of deterioration in health!
2. Napster and the free exchange of recorded music. Downloading of music from the Internet may reduce sales revenues to distributors and recording artists. Some people maintain that downloading music, like sharing books, makes music more accessible

and may result in increased sales through added exposure. Perhaps downloading should be subject to a fee of which a percentage should be forwarded to the recording artists.

3. Satellite dishes and stealing television signals. Is it fair to buy illegal satellite dishes on the grounds that major suppliers of cable television “charge too much”?

Moral Analysis and Economic Outcomes

The Moral Basis of Economic Theory

Economic theory is concerned with the efficient utilization of resources to satisfy consumer wants and to maximize profit and satisfaction. Pareto optimality exists at the point where it is impossible to make any given individual better off without harming another given individual. Although most businessmen believe that profits and cash flow are very important, there has been a move toward the recognition of social responsibility.

The Moral Objections to Economic Theory

The blind pursuit of profit has resulted in bribes, environmental problems, injured workers, unsafe products, closed plants, and so on-this is unethical.

Firms attempt to operate at the point where marginal revenue equals marginal cost. Each firm is located between a “factor” market for inputs (material, labor, capital, and time) and a product market, e. g., for its output of goods and services. Individuals have preference functions, aimed at maximizing their satisfaction from a limited mix of products. The forces of

supply and demand create an equilibrium position for the market of all goods and services.

The Moral Claims of Economic Theory: Effectiveness

- . - Firms use resources in a way that help them maximize their revenues from the usage of these limited resources (materials, labor, capital, and time).
- . - The forces of supply and demand determine the distribution and the market prices of the goods and services being offered by firms.
- . - The political processes of society help determine the income of each consumer.
- . - If managers and owners of resources act to maximize profits and consumers act to maximize satisfaction, “ Pareto optimality” will exist-i. e., the greatest output and supply of goods and services with the least input of resources and the best possible prices!

Moral Analysis and Legal Requirements

How do we find a balance between financial and social performance?

How do we decide what is “ fair” or “ just” or “ right”? The law in a democracy lays down minimum moral standards (as a result of the goals, norms, beliefs, and values of individuals, small groups, and larger organizations) in an attempt to regulate the behavior of individuals and organizations. The rules are published, accepted, followed, and enforced by the governing bodies-e. g., the courts and the police force-with a view to

ensuring the smooth running of society. Everyone should abide by the law and contribute to a positive change in the latter.

Incentives spur employees to focus on financial goals, for obvious reasons, unless social goals-e. g., providing employment to “less privileged” individuals-are part of the bottom line.

Reward System

A formal system may exist to reward employees who demonstrate ethical behavior.

Ethics Committee

An ethics committee may be set up to develop, update, and enforce the code of ethics.

Judiciary Board

This independent group is responsible for discovering and solving ethical problems.

Employee Training in Ethics

Training in “ethics” may include seminars, workshops, and other methods.

Johnson Controls and gender equality. Some heavy metals, e. g., lead, may adversely affect a woman’s body before or during pregnancy. Therefore, companies with industrial processes that require the use of such metals may ignore (employment) applications from women of childbearing age in order to avoid legal problems.

Johnson Controls Inc., a manufacturer of lead-acid batteries for automobiles, required evidence of surgical sterilization before employing women less than or equal to fifty years of age. The court overruled their requirement on the grounds of discrimination and held that

- . a. women should be made aware of the dangers to which they subject themselves; and
- . b. employers would not be liable to women as long as the latter were duly informed of the risk and as long as negligence (on the part of the employer) could not be proved.

Moral Analysis and Ethical Duties

Morality refers to standards of behavior by which people are judged. Moral standards differ between

- . a. individuals based on upbringing, culture, education, and other factors;
- . b. groups, e. g., the approach to environmental protection will differ between public interest groups and business managers;
- . c. individuals and groups of different time periods; and
- . d. countries, e. g., the attitude of the USA versus the attitude of some third world countries toward environmental protection.

Members of a group do have a moral responsibility toward the well-being of one another. If people act selfishly, life will be “solitary, poor, nasty, brutish, and short,” according to Thomas Hobbes, an eminent philosopher.

Ethics refers to our beliefs, but it is linked to morality-e. g., smoking is bad for your health; therefore, people should not smoke in a crowded room!

Centuries ago, three Greek philosophers laid the foundations in the matters of politics, ethics, and the “ good life.”

1. 1. Socrates believed that a success is equal to happiness plus contentment plus prosperity;
2. 2. Plato emphasized that having a “ good society” is equal to a good life, which is equal to contentment plus prosperity plus justice with minimum interference and the pursuit of excellence; and
3. 3. Aristotle focused on ethics and the need to have “ good people”; therefore, happiness based on reason plus the pursuit of excellence is not equal to pleasure, wealth, or fame.

The Principle of Utilitarian Benefits

The principle of utilitarian benefits involves creating the greatest net benefits for society. We are concerned with financial and other benefits including friendship, knowledge, health, love, and so on. This principle focuses on results and treats each individual equally, i. e., the greatest good for the greatest number.

The Principle of Universal Duties

The Principle of universal duties is concerned with looking at people as ends rather than as means to an end-i. e., people should be treated with dignity, respect, and moral worth in an honest manner.

The Principle of Distributive Justice

This principle is based on truth, justice, and cooperation between all members of society to promote economic and social benefits for all. Individual effort/merit is downplayed and one is not required to help anyone.

The Principle of Contributive Liberty

This principle states that no individual should interfere with the rights of any other individual/group. Therefore, non-voluntary exchanges or gifts would be unacceptable. This principle does not address the need for people to contribute to the welfare of others.

Trust, Commitment, and Other Factors

Cooperation between owners, employees, and those associated with the firm—e. g., customers, suppliers, banks, government authorities, and so on—is necessary for corporate success.

Managers should be moral in order to build trust, thus leading to increased profits and cash flow through team effort and cooperation. If employees do not trust managers, they may not share their ideas with the latter because (a) they will not care for the welfare of the company or (b) they fear they will not receive credit for their ideas or (c) their ideas may lead to improvements in processes and layoffs, or (d) all of the above!

Managers should encourage employees to be moral instead of exerting undue pressure on them to deceive others—e. g., other employees, customers, suppliers, potential investors, society, the government, and the

world. Automobile manufacturers must meet mileage, safety, and emission standards and provide training and health care benefits for their employees.

A Business Organization Should Be Moral

Overemphasis on the bottom line can lead to short-term gains at the expense of medium- and long-term profits. Managers must consider their moral obligations to employees, customers, suppliers, government, society, and the world in general. Top management and others should have integrity and character; otherwise, the firm will fold just like a tree that rots from the top! Philosophers usually divide ethical theories into the following areas:

1. Human rights and the prevention of cancer. Every individual has the right to be protected from developing cancer by the acts/omissions of another person and to be informed of cancer-related matters that may affect him/her.

Erin Brockovich, a lawyer's assistant, discovered some medical records while looking through a real estate file. She investigated the matter and uncovered massive pollution caused by a gas compressor station located in Hinkley, California, and operated by Pacific Gas and Electric Company. The story is concerned about litigation due to contamination (cancer-causing hexavalent chromium), how it got into the people's water supply, subsequent actions, and the result.

In *Di Palma vs. Air Canada*, it was held that an employee should have adequate working conditions, including enough fresh air in circulation without secondhand smoke!

2. Employee equity-no discrimination. The law attempts to ensure fair treatment for all in terms of protection and benefits-i. e., no discrimination on the basis of race, origin, nationality, gender, age, physical characteristics, marital status, religion, or any disability. In certain cases, performance must be enhanced by appropriate aids to employees. Sometimes it may appear that the company is being discriminatory-e. g., evaluating foreign credentials or asking employees over the age of forty to attend certain medical examinations. The employer should be able to justify this requirement; otherwise, a lawsuit may follow! At other times, a company may appear to be nondiscriminatory by distributing literature and displaying signage to this effect.

1. A livable environment. We must contribute to a healthy environment including safe production processes, waste control and disposal, emissions, etc.

2. Advertising and promotion. Advertising and promotion should be conducted in an honest manner. Advertisements should reflect the truth, and this includes health warnings related to cigarettes and food products-e. g., fat, trans fat, sodium, and cholesterol content.

3. Negotiations. Is lying acceptable if the motive and results are fair?

4. Business approaches. General Electric aims to reduce greenhouse emissions and improve energy efficiency by 30 percent by the end of 2008 and 2012, respectively. By infusing \$1. 5 billion into R&D, GE proved that this project is more than a publicity blitz.

Consistency: Aligning Corporate Social Responsibility with the Business Plan

Consistency ensures that the bottom line is not compromised. Wal-Mart is known for poor wages and inadequate health care coverage, which are consistent with its low (price and) margin business model. To compensate employees, they are offered stock options based on performance.

Ethical Challenges in Human Resources (HR)

Ethics is about asking questions even if they are potentially disturbing! In the Enron/Arthur Andersen scandals, no one dared ask the questions that might have saved these companies. Now, corporations are conscious of the risks associated with failing to question the numbers!

The negative exposure that companies like Nike and Levi Strauss & Co. have experienced concerning working conditions in their Asian plants reflects unethical business practice.

HR must ensure adequate risk assessment-selection and recruitment processes, training policies, programs, appraisal systems, compensation, incentives, benefit determination, talent management systems (including manpower and succession planning), labor relations, etc. There must be programs in place to monitor age, sex, and gender discrimination, employee attitudes and morale, and talent procurement and retention. Pay attention to health, safety, termination, downsizing policies, demographics about who gets promoted, raises, and bonuses. Do potential employees see the company as a great place to work in?

Are we in control of liabilities? Is there a formal (validated) system in place that is clearly understood and communicated? Has the system had unintended effects? Has it been analyzed for adverse effects, e. g., a possible discriminatory impact on legally protected groups? Is there a formal assessment of the key capabilities/talents needed in the company?

Are retention rates being monitored for criticality? Do they include competitive practices, capabilities, and performance? To what degree is the expertise of key people captured by the organization? Are there noncompetitive agreements with key technical people? Does our reward system lock key contributors into the firm?

An Aristotelian Take on Business Ethics

Aristotle was a practical, business-oriented philosopher who asked ethical questions. Aristotle maintained that motivation is a powerful indicator of the degree to which virtue is present in our actions. Miami hoteliers cannot claim credit for sunny days, and leaders in Silicon Valley get no (ethical) credit for providing jobs that are accidentally developmental.

A leader should create an environment that allows members of an organization to realize their full potential. Jefferson paraphrased this in the Declaration of Independence when he noted a new country should provide conditions in which all citizens could pursue happiness.

Aristotelian Questions for Corporate Leaders

. - Am I behaving in a virtuous manner? How would I want to be treated?

. - To what extent can employees learn and develop their talents and potential?

. - To what extent do all employees participate in the decisions that affect their own work and in the financial gain resulting from their own ideas and efforts?

Aristotle believed that leaders should observe decent limits on their own power in order to allow others to develop. Leadership should be shared and rotated, with leaders satisfying owners and employees. Many successful corporate leaders consciously reject such measures of performance as inappropriate, impractical, and irrelevant to the task of creating wealth. They believe that their responsibility is to their shareholders rather than to their employees.

The Distribution of Rewards in Organizations

Aristotle discussed the role of leaders in terms of the work environment they provide for employees and the principle of rewarding people in proportion to their contributions.

Top executives often protect their compensation packages while cutting training budgets, the number of employees, benefits, and reneging on contributions to pension funds. It is considered uncivil to raise issues of distributive justice in the interests of investors and executives. Managers should place themselves in the shoes of other employees. Is the CEO the only qualified person willing and able to do the job for an astronomical salary plus options?

Examples of Aristotelian Business Leadership

By focusing on the link between contributions and rewards, directors can create a more virtuous/productive sense of community among owners, managers, and other employees.

1. In 2000, a businessman named Charlie Butcher shared the proceeds of the sale of his company with his employees in proportion to the length of their employment, giving a \$55, 000 check on average to each worker. (In contrast, when Daimler Benz acquired Chrysler, Chrysler shareholders and executives got fat checks, but hourly workers got nothing.) Butcher always offered employees high starting salaries, reasonable workweeks, and the opportunity to switch jobs to find a fulfilling one. Finally, Butcher sold the company to S. C. Johnson & Son Inc., despite higher offers from other companies, because the latter promised to continue the employee-friendly culture and job security he had created.

Sexual Harassment

Sexual harassment is unethical because it destroys focus on corporate goals. Sexual harassment law was originally drafted in order to protect women from sexual pressure and unwanted attention from men, i. e., a “ hostile work environment.” When men continually make lewd comments, tell off-color jokes, and so on, they make women feel uncomfortable.

Men have sometimes felt sexually harassed by other men even though everyone involved was heterosexual. At a car dealership in Colorado, for example, the sales managers typically referred to salesmen as “ little girls” and “ whores.”

Sexual harassment occurs where one sex is treated differently from the other.

Conclusion

There are many managers who are guilty of paying mere “ lip service” to the concept of ethics. This is unacceptable and must not be tolerated, regardless of the circumstances.